

China's new interest towards CEE – in the light of a railway construction in Hungary

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Introduction

The CEE countries always played an important role in the Chinese foreign policy towards the European Union: until the global financial crisis Beijing considered them as gates towards the Community. The crisis hit Europe as well and Western European countries were happy to open up their markets and cooperate with the Asian power. Recently there is a new momentum for the CEE countries: with its new global project, China is interested in infrastructure projects and in order to receive tender sin the EU, they need references as well, according to the very strict European rules. CEE countries are ready to offer this possibility. In this paper we are going to look at this new interest through Hungar, and with the help of a Hungarian case study we are going to learn about this projects and what they might mean for the CEE countries. Simply through their economic relevance Chinese can persuade countries to join their initiatives – who are willing to join them. In the case of the CEE, the Chinese development model can be so much attractive (deals without democratic-institutional conditions), it can fade the benefits of the EU itself.

Keywords: PR China, Hungary, European Union, Infrastructure, Chinese loan, Infrastructure References

China and Europe²

In 1975 the European Union (at that time the European Communities) and the People's Republic of China established diplomatic relations. Until today, despite their differences, the Community and the Asian giant deepened in their relationship by a common aim of building up global strategies. "Since 1998, an annual EU-China summit is held between European heads of state/government and Chinese leaders to discuss bilateral, as well as global issues and since October 2003 the EU and China have acknowledged each other as 'strategic partners'." (Casarini, 2006: 7) The diplomatic connections looks healthy and intensive between European countries and Beijing while the trade rates also indicates strong ties. So it is clear, that in the past few years relations between Europe and China has deepened, but it is not yet clear, whether the common stakes or the conflicting interests will dominate these

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² See: Vörös, 2010

relations. Because behind these numbers and summits there are still a lots of problems and worrying characteristics.

Among problems we can name the increasing negative views among the European public according to China's growing economic and military power: Europeans have become much more critical of China and EU have serious concerns about the human rights situation in Beijing. The Asian giant "has now overtaken the United States as the greatest perceived threat to global stability in the eyes of Europeans, according to the opinion poll commissioned by the Financial Times. The poll, carried out by the Harris agency [in 2008] found that 35 percent of respondents in the five largest EU states see China as a bigger threat to world stability than any other state."³

And beside close economic connections we have to notice one thing: it is a new trend that because of internal problems (and the lack of integrity) the EU is not a global partner for China. Beijing seeks bilateral connections with each countries. So it is true that import and export rates are growing and we count them together as EU imports and exports but the community can not step up like a global power, who can make decisions. (Inotai, 2010) So as we can see, while China is a global player, the European Union is just a bunch of countries in the international political area and the countries seeks connections by their own instead of forming a single EU strategy for international relations.

Diplomatic and economic relations are evolving and becoming more intensive from year to year between European countries and Beijing, and the financial crisis of the Community just accelerated these events. All member states try to secure an outstanding place in the framework of cooperation with Beijing, so does Hungary as well. (Tarrósy-Vörös, 2014a: 145)

How about China in Europe recently: "Chinese FDI in Europe reached a new record of US\$18 billion in 2014, doubling the previous year's figure and by 2015 it was estimated US\$23 billion" (Müller-Markus, 2016: 4). Moreover, the total European Union trade with Beijing has been experiencing deficit, "peaking at 180 EUR billion in 2015 before dropping to 175 billion in 2016".⁴

China and the BRI

³ Europeans View China as Biggest Threat to Global Security. April 16, 2008. Atlantic Review. <http://atlanticreview.org/archives/1058-Europeans-View-China-as-Biggest-Threat-to-Global-Security.html>

⁴ China-EU - international trade in goods statistics. September, 2017. Eurostat. Available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/China-EU_-_international_trade_in_goods_statistics

While the EU common strategy is missing, China is about to create its global one, restructuring the global economic processes. The Belt and Road Initiative (BRI), still a vision rather than a coherent foreign policy as sometimes Chinese officials state is a land- and sea-based economic route, series of corridors, bringing together China and Europe through Central Asia and Russia, connecting Beijing to Southeast Asia and South Asia, and linking the Asian Giant with the Persian Gulf and the Mediterranean Sea. A project worth a total cost of 4 to 8 trillion USD⁵ – at this point, but the actual plans are still missing in most of the cases, the already high costs can further rise.

The project has huge hopes on the other side, since it includes “more than 60 emerging markets and developing states with a total population of over 4 billion and a combined GDP of \$21 trillion, which is about 30% of the world’s GDP and 75% of the world’s energy reserves” (Kozhakhmetova, 2018: 24).

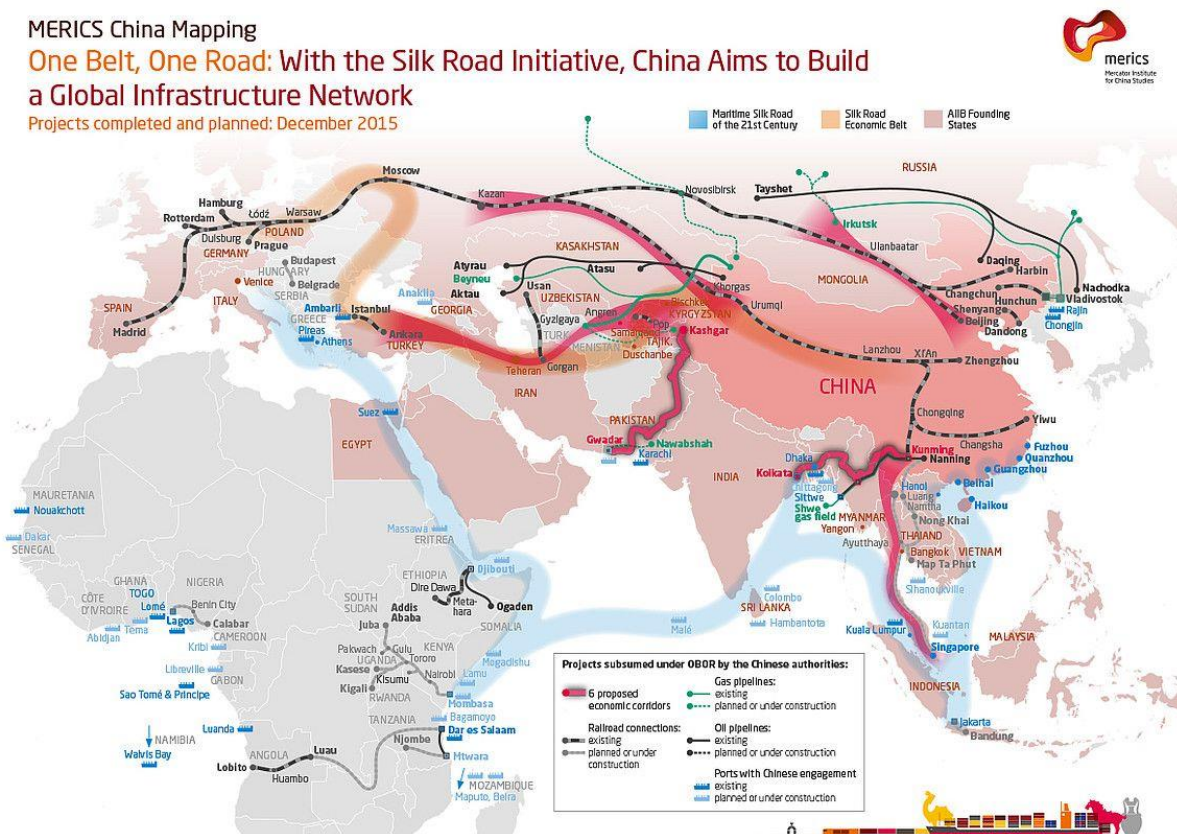


Figure 1. The BRI. Source: beltandroadcenter.org

⁵ Cost of funding ‘Belt and Road Initiative’ is daunting task. September 27, 2017. South China Morning Post. Available at: <http://www.scmp.com/special-reports/business/topics/special-report-belt-and-road/article/2112978/cost-funding-belt-and>

BRI is mainly about infrastructure projects (railways, motorways, ports, etc.) to connect these regions to China, helping the Chinese market. Since globalized market economies are not about one-way traffic, Europe is also dependent on China and while they understand, it can further help Beijing to grow and overtake the Western powers, they can not miss out.

Before we would move on to analyse the CEE region, which definitely is necessary for these projects, have to mention one more thing about the BRI. While it can help Chinese trade it is also essential for the Chinese economy, heated by the need of a GDP growth. The legitimacy of the Communist Party depends on the steady growth, so it is important for them to have infrastructure projects. But slowly China is out of internal possibilities: motorways, railways, they have connected nearly all of the relevant cities to the network, thus they are looking for international possibilities. BRI can be the arena for them to continue these projects: with Chinese companies, from Chinese money, with Chinese workers using Chinese technologies.

Hungary and CEE turns towards China?⁶

The CEE countries, while most of them have already joined the European Union, still struggle to achieve the Western levels of development. Hungary is excellent example for showing the disappointment in the EU, the derailed development and the imminent turn towards the East.

In 2014, with my colleague István Tarrósy we published a paper about Hungary's global opening, describing this disappointment as well: "The system change in 1989-1990 and the end of the Cold War were followed by an immediate replacement of the former Eastern connections by Western relations, causing a dramatic change first of all in export markets: as shown earlier, the step was imminent, lacked any organic evolution and left Hungary without Eastern export markets and cooperation. [...] At that time, and by the early 2000s, Western European financial experts were praising Hungary, labeling it as the economic front-runner of Central Europe, for its huge efforts to comply with EU regulations and difficult economic tasks. (Németh, 2011) Its route was paved to the European Community and even if the process itself proved to be successful, in a bit more than a decade Hungary lost its advantageous position in the region. The economic difficulties of the country are clear since the first years of the new Millennium, and the EU membership has been unable to solve the problems – or better to say, it has generated even new ones, for example, in the sector of agriculture, where traditional Hungarian actors met fierce competing Western counterparts, and lost. [...]"

⁶ Previously published: Tarrósy-Vörös, 2014a

The turn towards Eastern partners seems to have been boosted by several factors, mainly connected to the unsuccessful European steps aiming at the recovery of the economy and the criticism arriving from other EU countries because of Prime Minister Viktor Orbán's national reforms. The economic difficulties of Hungary are undoubtedly serious; the huge amount of foreign-currency debt is a big concern, and Western financial organizations and several credit-rating agencies have considered Budapest as one of the most vulnerable members of the Community. [..]

In an interview with *The Economist* in 2011, Viktor Orbán agreed with the suggestion that success in macro-economic stabilization has not been matched by progress on the micro-economic agenda: debureaucratization, labor-market reform and particularly the black economy. He put some of the blame on the European Union, both for low growth and for failing to disburse structural funds more quickly.⁷ The reporter quickly noted that other countries are growing a lot faster than Hungary⁸ with the same conditions, under the same circumstances. But blaming an entity, blaming the bureaucracy far from our borders, the well-known "Brussels wants us to" phrase just fits perfectly in this foreign policy, where everything has been shaken up. [..] Time has changed, says Orbán, and criticizes the way Western democracies work, bringing Eastern countries such as China or Russia as an example. [..]

If we focus specifically on investments or trade relations, Hungary plays a prominent role in the region's relations with China. The country plays a particularly important role in China's foreign policy, as it is not only the most popular regional destination for Chinese immigrants, but also Hungary is the only country that has a Bank of China branch in the region. What is more, there is a Hungarian-Chinese bilingual elementary school since the fall of 2004.

Hungary has been establishing itself as a regional partner of China for years now and the second Orbán government's foreign policy openly declared its turn towards China – continuing and obviously extending bilateral relations previously enacted by the left-wing governments. [..] The visit of Wen Jiabao in the summer of 2011 seemed to mean an advantage for Hungary, compared to other countries in the region. The Chinese Prime Minister and Viktor Orbán signed twelve agreements, including a one-billion-euro extra credit or potential infrastructure investments. During this visit there was a shocking step of the Hungarian government against the protesters of Free Tibet movement: although Orbán stated

⁷ Orbán and the Wind from the East. November 14, 2011. *The Economist*. Available at: <http://www.economist.com/blogs/easternapproaches/2011/11/hungarys-politics>

⁸ Ibid.

that they did not lock up anybody, the demonstrations were banned and local Tibetans summoned to attend the government immigration offices on that day.⁹ As Orbán noted in [the] interview in *The Economist*, the government has the right to stop demonstrations that disrupt diplomatic relations. The Hungarian state has the right to pursue foreign policy in the national interest. Additionally, the reporter added: Perhaps, but other countries do allow protests within sight of visiting foreign delegations, including those such as the Chinese whose feelings are famously prone to injury. His didn't.¹⁰” (Tarrósy-Vörös, 2014a)

Finally we concluded, that Hungary's position, or so-called leadership in the region is very fragile, and many CEE countries are willing to offer the Asian country immediate and full partnership; for example, Slovakia, the Czech Republic, Poland or Romania – all of them are ready to act in this way. As Matura noted, “China sees the Central European countries as a gateway to the European Union. [...] Hungary would like to become a hub for the Chinese economic presence in the region”. (Matura, 2011: 7)

All in all, economic connections with China could be beneficial for Hungary and CEE, but praising the “Chinese way of democracy” over that of what the European Union fosters is dangerous and can lead to economic issues as well in the longer run.

Unsuccessful years¹¹

While in the previous years China was able to conquer European markets, CEE region became important because of a new need for China, related to the BRI.

China is about to break into new markets, regarding infrastructure projects and planning to enter competitions in all regions of the world, a business where references are essential. The lack of Chinese infrastructure projects in the European Union is visible but should not be surprising: without successfully finished railway, motorway (etc.) projects outside of China, the reliability of their companies is questionable – especially after a failed project in Poland. Before analyzing the planned participation of Beijing in the V4 countries, where the Chinese presence might be the strongest in the Union regarding these projects, we have to underline: those reference investments are underway, from Central Asia to Central America, their companies are building motorways and railways to further boost their participation in this sector. Beside the well-known, raw material- and resource-motivated projects in Africa, the very first projects of China has just finished in the Middle East: a high-speed rail link between

⁹ Ibid.

¹⁰ Ibid.

¹¹ Based on the chapter i wrote in Tarrósy-Vörös, 2014b.

Istanbul and Ankara in Turkey¹², cutting the 533-km journey between the two cities from a typical seven hours to three and a half and a metro-line infrastructure (in an international consortium) in Mecca, Saudi Arabia, becoming the highest capacity of any metro in the world. China won another high-speed rail project in November 2014 in Mexico, as they were the only bidders for the line connecting the capital of Mexico City with Queretaro, a manufacturing city 210 km to the north.¹³ According to the Turkish project, analyst Idris Gursoy noted, that the new railway line “paves the way for the Chinese companies to enter into other big infrastructure projects in Turkey”.¹⁴ But as a finished contract, it may pave the way to European projects as well.

The very first infrastructure project in Europe, which was about to help Covec Group (China Overseas Engineering Group, an enormous Chinese state conglomerate with an annual turnover of 25 billion dollars, and the world’s third largest construction company¹⁵) in entering the European market, was a motorway project in Poland, the A2 motorway, connecting Warsaw with the German border. The Chinese company was criticized from the very first moment, since they had submitted a price that was less than half of the planned budget, making it impossible for local companies to compete with them. The outcome was disastrous: Covec abandoned the project a year later, leaving an unfinished project behind. Their entrance to the European market was a failure: they were unable to build the motorway for that fee, “the idea of importing construction equipment and building materials was a blunder: China is too far away, and the machines are not certified for use in the EU. The Chinese parent corporation did not supply funding as planned, and Covec was forced to wait for payment from the [Polish institutions] before it could move forward. Worse still, the Chinese had not factored in the impact of rising [...] prices”, making it obvious: the European market is different than the relations they got used to at home, or in China and Asia.

The failure shifted the planned infrastructural presence of China in Europe, but by now there are further projects, especially in Hungary. The first idea about Chinese participation covered the whole railway network, connecting Budapest with the Airport and the county capitals.¹⁶

¹² Turkey’s new high-speed rail: victory for Erdogan – and China. July 29, 2014. Global Construction Review. Available at: <http://www.globalconreview.com/news/turkeys-new-high-speed-rail-victory-erdogan0938346/>

¹³ Why China Won Mexico’s High-Speed Rail Project. November 4, 2014. The Diplomat. Available at: <http://thediplomat.com/2014/11/why-china-won-mexicos-high-speed-rail-project>

¹⁴ Turkey’s new high-speed rail: victory for Erdogan – and China. July 29, 2014. Global Construction Review. Available at: <http://www.globalconreview.com/news/turkeys-new-high-speed-rail-victory-erdogan0938346/>

¹⁵ The motorway that China couldn’t build. June 16, 2011. VOX Europ. Available at: <http://www.voxeurop.eu/en/content/article/716731-motorway-china-couldnt-build>

¹⁶ Hungary sets sights on China’s high-speed rail tech. March 1, 2014. People’s Daily Online. Available at: <http://english.people.com.cn/90001/90776/90883/7303756.html>

Later on the Hungarian government wanted to build a bypass at Budapest for freight traffic, using Chinese credit and technology.¹⁷

China is clearly pushing for their presence in Europe, as Chinese Prime Minister Li Keqiang noted, “most CEE countries see a need to upgrade and renovate their railway lines, roads, ports and other transportation facilities. China is making rapid progress in the manufacturing of transportation equipment, especially in the field of high-speed railway. We are fully capable of undertaking transportation infrastructure projects with high quality in CEE countries.”¹⁸

What gives further importance to this project is the European stretch of BRI, emerging in China and arriving in Europe to send goods in the shortest time in the safest way: as well as the mentioned Turkish project, the analyzed Budapest–Belgrade railroad line is also thought to be a part of it, giving importance to the affected countries.

As a summary, we have to express, that Chinese presence in the infrastructure sector in the region (and Europe) is still inconsiderable: though both sides (the CEE countries and Beijing) have expressed their desires for cooperation in several projects, the very first such Chinese involvement is still yet to come. Hungary is going to be the first one to offer the possibility for China?

Case study: The Belgrade-Budapest railway¹⁹

One of the projects of China’s One Belt One Road foreign policy vision, a 336 km rail line from Serbia capital Belgrade to Hungary capital Budapest – with construction originally set to start in 2015 – might take off the ground soon – according to Hungarian and Chinese officials. The actual start of the project was introduced during the meeting of the 16+1 cooperation, between China and CEE countries at Budapest.

According to the official reports by the media, the line has the potential to become the main transport route for Chinese (and Asian) goods that arrive by sea at the Chinese owned Greek port of Piraeus and head into (Central Eastern) Europe. Still according to the officials, it might reduce the travel time between the two capitals from eight hours to just two-and-a-half hours with a designed maximum speed of 200 kilometers per hour, considered as a flagship project

¹⁷ Hungary plans to build new railway using Chinese funds. February 27, 2013. Reuters. Available at: <http://www.reuters.com/article/2013/02/27/hungary-railway-idUSL6N0BR6ZP20130227>

¹⁸ Ibid.

¹⁹ See original article about the topic: Vörös, 2018.

of China, to increase its presence in the region. The reality, on the other hand, is a bit different – questioning the intentions as well.

First of all, take a look at the map showing the railway and the Piraeus port.



Figure 2. The Belgrade-Budapest Railway. Source: Forbes.com²⁰

There are a lot of false information about the project. It can reduce the travel time, but since the construction documents are dealing with a maximum speed of 160 kilometers per hour (not 200 as it was stated by international and Chinese media), it can reduce it only to three-and-a-half hours – and freight trains are not even capable of this speed. And as it can be clear from the map, its not jut Hungary and Serbia and the 152 and 184 kms that separates the Piraeus port, but further sections in the Balkans as well, namely FYR Macedonia and Serbian railways after Belgrade, with underdeveloped infrastructure, even worse tracks. As a Hungarian official of COSCO, the Chinese company operating the port and the already existing trade from Piraeus, commented for a Hungarian news site²¹, they are exporting already through the Greek port since 2014, and the new railway link can not really help this process: already they can transport everything, and winning 4 hours on this section is

²⁰ China's relationship with Hungary is hitting a rocky patch. September 5, 2017. Forbes. Available at: <https://www.forbes.com/sites/davidhutt/2017/09/05/chinas-relationship-with-hungary-is-hitting-a-rocky-patch/#344fb63316d3>

²¹ A kinaiaknak pont tökmіндеgy a Budapest–Belgrád-vasút. December 8, 2017. Index. Available at: https://index.hu/gazdasag/2017/12/08/budapest_-_belgrad_cosco_kina_vasut/

shadowed by the fact, that because of the mentioned Balkan-sections, it takes around 4 days to reach Budapest from Piraeus (with exceptions making it in 3, or worst case scenario, in 8 days).

If not the trade, then what is the reason? First of all, look at the details we know. In Hungary a 152km long railway will be upgraded and constructed, creating a railway connection to the Serbian border with two tracks with a maximum speed of 160 kilometers per hour. When it's about the costs, the international media was also wrong about the details, partly because of the secret discussions. As a Hungarian Journal summarized²², the Hungarian section will cost 750 billion forints (2.9-3 billion USD), 85% will be financed from Chinese loans with interest between 132 and 200 billion forints (0.5 and 0.8 billion USD) and 15% by the Hungarian Government, potentially making the whole project to cost around 950 billion forints (3.7 billion USD). And while the construction is already in a delay, it might take further 3 years to start actual works: one year for the public procurement procedures (according to the general regulations within the European Union), two years for the planning-negotiation phase to start the actual construction in 2021, to finish it by the end of 2023 or the beginning of 2024.

Is it beneficiary for Hungary to construct this railway with Chinese help? Well, it seems, that the project is more ideal for China than for Hungary.

- First of all, the railway will not reach Hungarian cities (e.g. Szeged, the third biggest Hungarian city), while considering the economic and trade relations or tourism, Belgrade is not a priority for Hungary. For Hungary it would be more necessary to upgrade and improve western connections, or tracks towards Romania and Ukraine, more essential for economic relations.
- Secondly, it is also important to note, that while the world is considering it a Chinese project, as we could see, the Hungarian section (the situation is similar in Serbia as well) will be financed by Hungary – 85% of it through loans from China's Exim Bank, and that loan is not even interest free (cheaper though than market loans). And, according to Hungarian officials, the interest depends on the share of Chinese companies in the project: less Chinese companies, higher interest – more companies, lower interest.

²² Kihagynák a magyar cégeket a több száz milliárdos óriásberuházásból. May 10, 2017. Magyar Nemzet. Available at: <https://mno.hu/gazdasag/kihagynak-a-magyar-cegeket-a-tobb-szaz-milliardos-oriasberuhazasbol-2398203>

- Which leads us to the third point: according to the plans it will be constructed mostly by Chinese companies.

So, summarizing the project, Hungary is going to upgrade a 152km long railway for 750 billion forints (2.9-3 billion USD) plus interest between 132 and 200 billion forints (0.5 and 0.8 billion USD) for China, with the help of Chinese loans basically with Chinese companies. According to estimations, it will take 130 to 2400 (!!) years to make the project profitable for Hungary.

Conclusion

If its not the trade and not Hungary, then who is the real winner of this construction? The Hungarian Government celebrated the deal, the Foreign Minister of the country saying²³, “we, in this region, have looked at China’s leading role in the new world order as an opportunity rather than a threat”. Well, it seems, really it is an opportunity, but a chance rather for China and Chinese companies with this construction: to get what they are looking for for a long time now, references within the European Union. With this project in Hungary, a member state of the European Union, they can build a railway that can help them to win more tenders in the future within the European Community.

For a short term, projects like this can be beneficiary for Europe as well, through the new infrastructures, but in the middle run, the (declassified) loans will make these countries to struggle, especially if projects won’t gain the needed income, plus (CE)European companies will lose possibilites, forced out from the race by their governments, eventually making the (CE)European economies to suffer.

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²³ Hungary launches rail link tender as CEE-China summit starts. November 26, 2017. Reuters. Available at: <https://www.reuters.com/article/china-hungary-easteurope/hungary-launches-rail-link-tender-as-cee-china-summit-starts-idUSL8N1NW0IC>

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